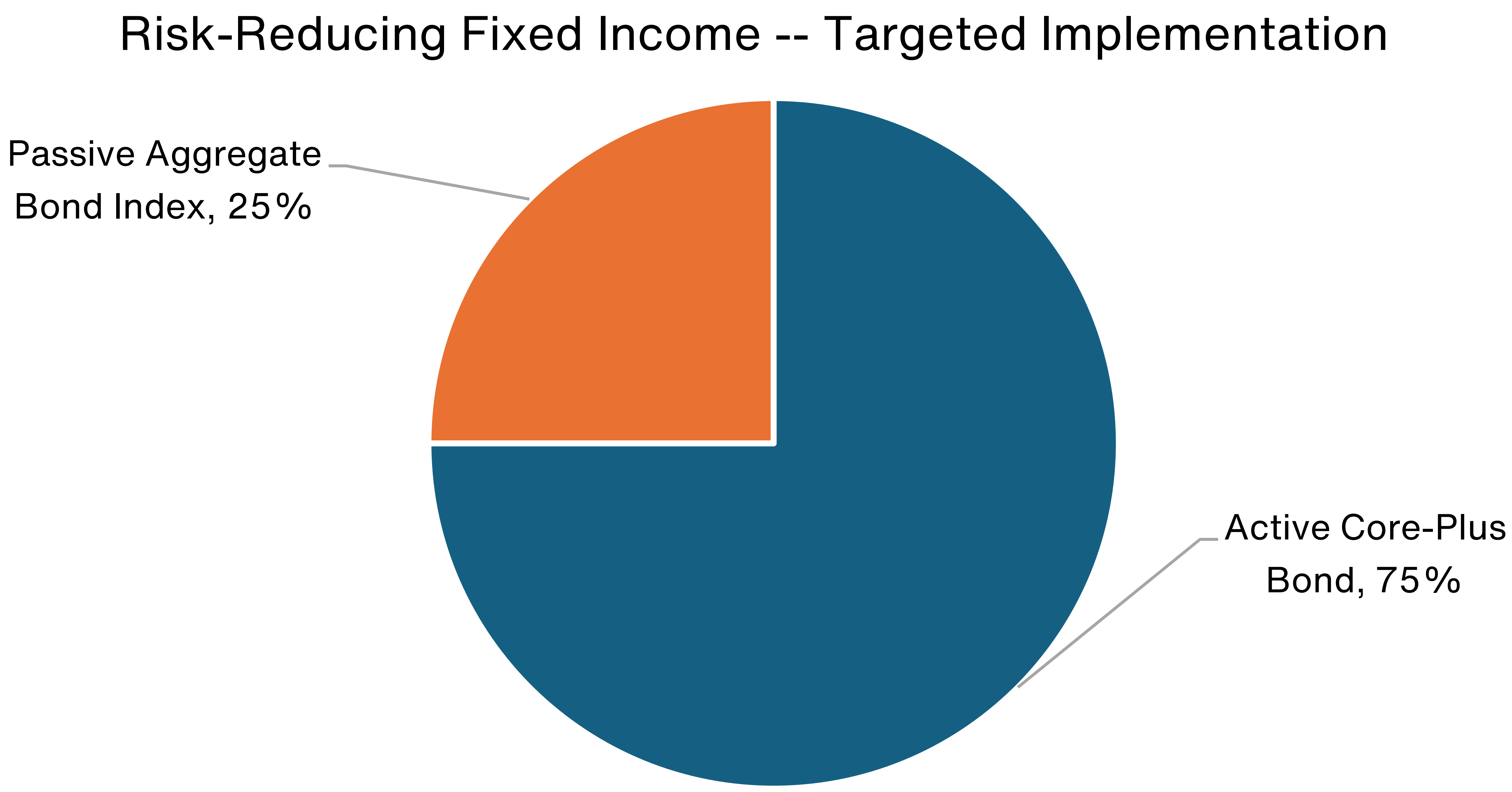
Fixed Income Review
Active vs. Passive

Nebraska Investment Council

December 2025

Investment advice and consulting services provided by Aon Investments USA, Inc.

Overview



The chart above illustrates the current implementation approach to the DB Plans' risk-reducing fixed income allocation

Given that the NIC recently elected to meaningfully increase the targeted allocation to risk-reducing fixed income*, we thought revisiting the benefits and drawbacks of passively managed aggregate bonds vs. active mandates would have merit

*As a result of the most recent A/L Study, NIC elected to increase the targeted allocation to risk-reducing fixed income within the School, Judges, State Cash Balance, and County Cash Balance DB Plans from 20% to 30%

Active vs. Passive in Fixed Income

In general, Aon prefers active over passive in fixed income

Fixed income indices, unlike their equity counterparts, do not perfectly track the overall bond market

Approximately 40% of the U.S. Bond Market is represented by the Bloomberg Aggregate Bond Index

Any bond that is convertible, inflation-protected, non-dollar, floating rate or below issuance size limits is excluded from the Aggregate

The weight of each security in an equity index is largely dependent on the cumulative wisdom of all investors – how they value that security; the weight of each security in a fixed income index is largely dependent on how much debt the issuer chooses to sell – their internal financing decisions

These internal financing decisions also impact the overall risk characteristics (sector weights, credit quality, duration) of the index – characteristics that have little to do with the active or passive investors' risk tolerance, investment goals or liabilities

Benchmarks are more difficult to track in fixed income as not all index securities are easily tradeable

As compared to equities, the difference in fees between active and passive is much smaller for fixed income

Unlike with equities, the average fixed income manager has historically performed well versus indices / passive strategies; the broader the mandate, the greater the opportunity for outperformance

Historical Active Fixed Income Manager Performance
Periods ending September 30, 2025

Active Core Bond Manager Universe*	Trailing 3 Years	Trailing 5 Years	Trailing 10 Years
Median Core Bond Manager Return (Gross)	5.50%	0.07%	2.40%
BB Agg. Bond Index	4.93%	-0.45%	1.84%
Difference	+0.57%	+0.52%	+0.56%
BB Agg. Bond Index Rank in Universe	92	95	98
# of Observations	217	211	193

Active Core-Plus Bond Manager Universe*	Trailing 3 Years	Trailing 5 Years	Trailing 10 Years
Median Core+ Bond Manager Return (Gross)	6.30%	0.77%	3.01%
BB Agg. Bond Index	4.93%	-0.45%	1.84%
Difference	+1.37%	+1.22%	+1.17%
BB Agg. Bond Index Rank in Universe	98	99	100
# of Observations	149	142	118

*eVestment Alliance

Arguments for Passively Managed Aggregate Fixed Income

Two primary arguments for passive fixed income:

1) Reduces the overall investment management fees of the fixed income portfolio

- Very low cost (1 bp) fixed income beta exposure

2) Anchor-to-windward in down markets

- Most active core / core-plus managers underweight Treasuries in favor of spread sectors, which leads to underperformance during market sell-offs

Are Active Management Fees Worth It?

Periods ending September 30, 2025

	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Trailing 10 Years	Since Inception	Inception Date
Baird	**3.4%**	**6.0%**	--	--	**3.3%**	May-2022
Bloomberg Aggregate Index	*2.9*	*4.9*	*--*	*--*	*2.6*	
BlackRock Core-Plus	**3.2%**	**5.5%**	**-0.1%**	**2.3%**	**4.7%**	Apr-1998
Bloomberg Aggregate Index	*2.9*	*4.9*	*-0.4*	*1.8*	*4.0*	
PIMCO	**3.9%**	**6.2%**	**0.5%**	**3.0%**	**5.0%**	Apr-1998
Bloomberg Aggregate Index	*2.9*	*4.9*	*-0.4*	*1.8*	*4.0*	

Fees for actively managed core-plus mandates are relatively low

NIC pays its three existing core-plus bond managers between 11-18 bps

NIC's net-of-fee results have consistently outpaced the Bloomberg Aggregate Bond Index

I.e., the passive alternative

To What Extent Does Active Management Underperform in Stressed Equity Markets?

4Q 2008

Global Stocks = -22.3% / Agg = +4.6%

Distribution %tile	Core-Plus Bond Manager Universe*
5th	5.5%
25th	2.7%
50th	0.1%
75th	-3.2%
95th	-6.8%

4Q 2008 Returns

Baird** = 0.3%

BlackRock Core-Plus = 1.2%

PIMCO = 3.4%

Bloomberg Aggregate Index = 4.6%

1Q 2020

Global Stocks = -21.3% / Agg = +3.1%

Distribution %tile	Core-Plus Bond Manager Universe*
5th	3.1%
25th	1.2%
50th	-0.4%
75th	-2.2%
95th	-5.4%

1Q 2020 Returns

Baird** = 0.1%

BlackRock Core-Plus = 0.1%

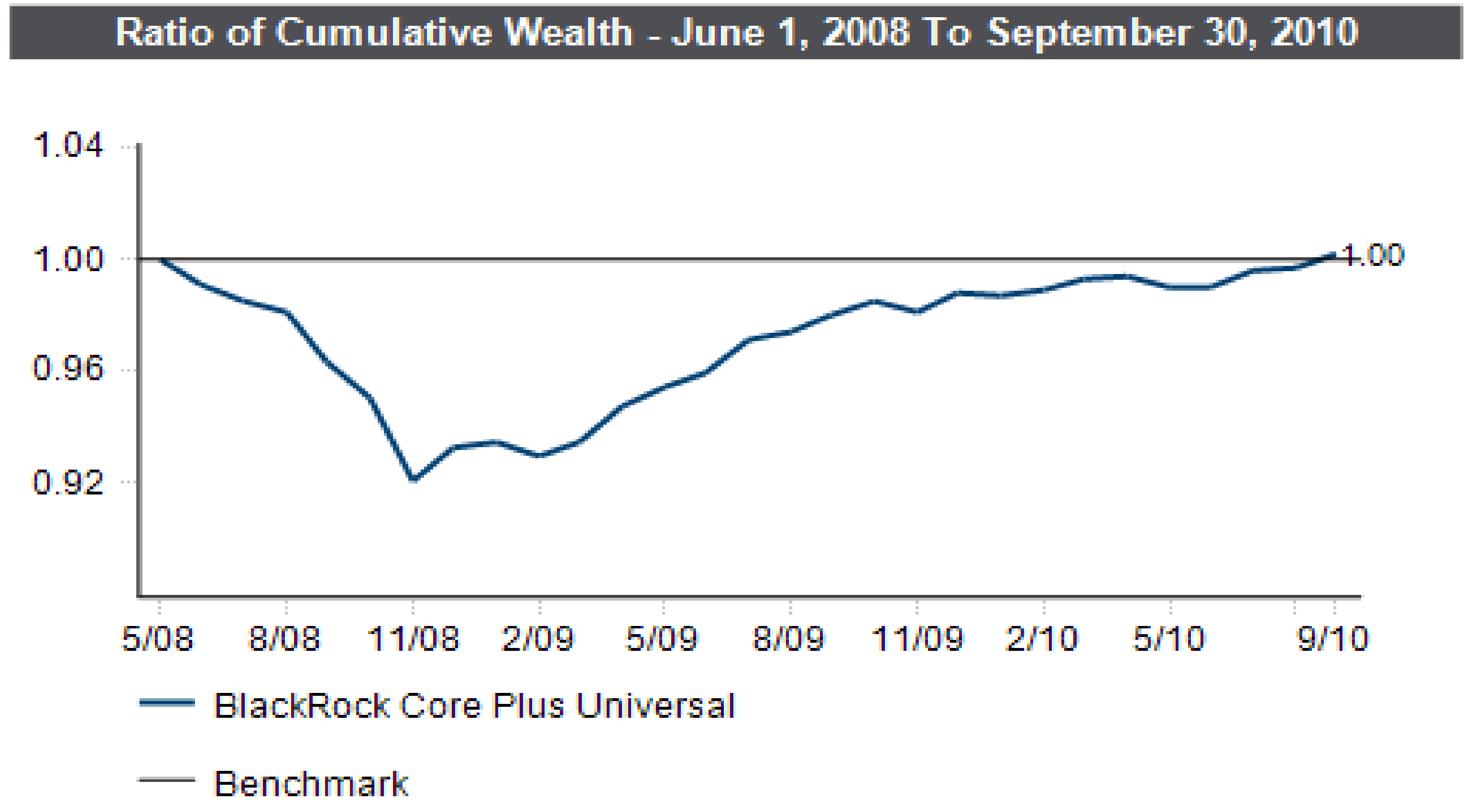
PIMCO = 0.2%

Bloomberg Aggregate Index = 3.1%

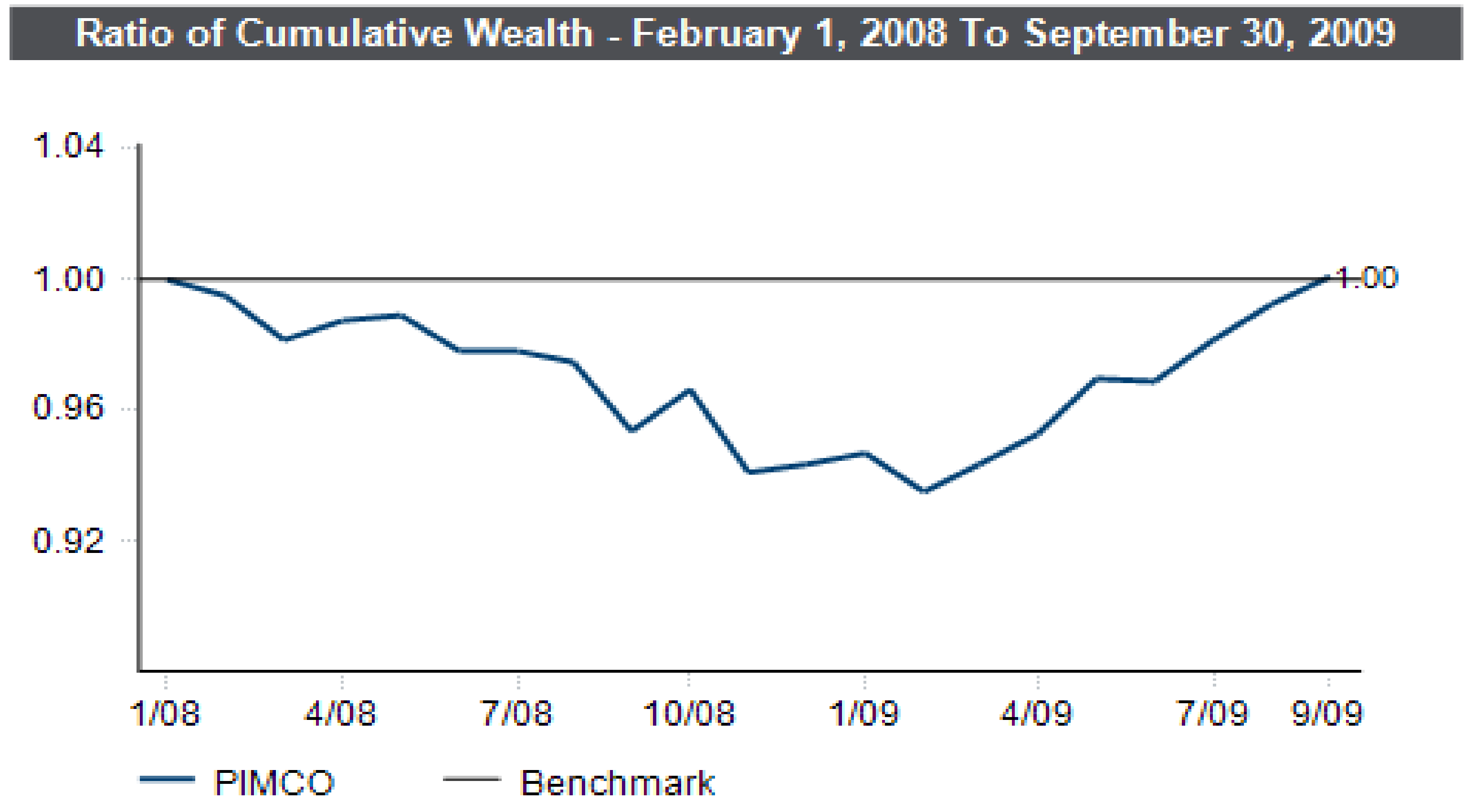
*eVestment Alliance
**Returns represent composite returns net of NIC fee

How Long Might It Take to Recoup Active Management Drawdowns

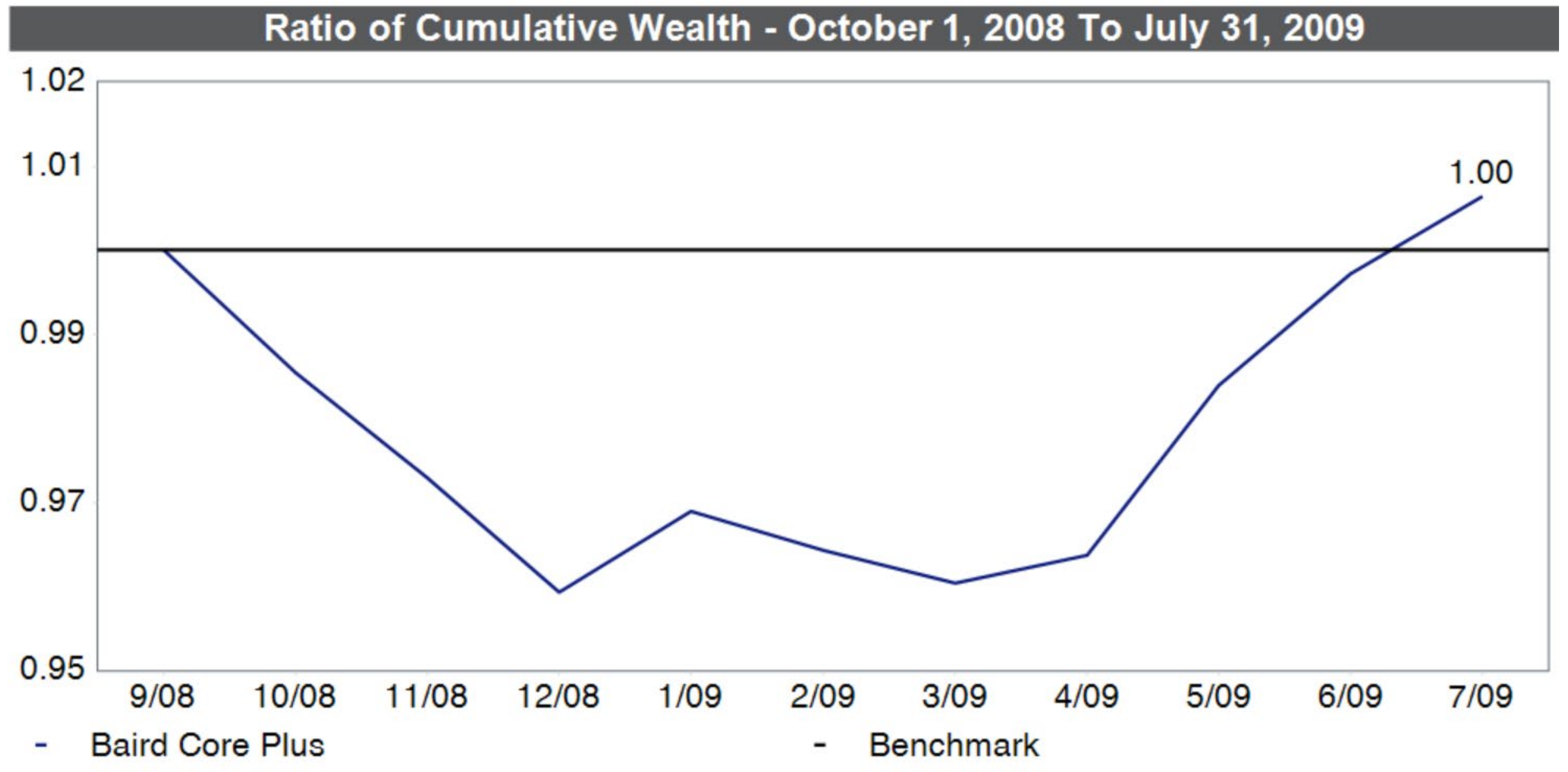
Vs Bloomberg U.S. Aggregate Bond Index



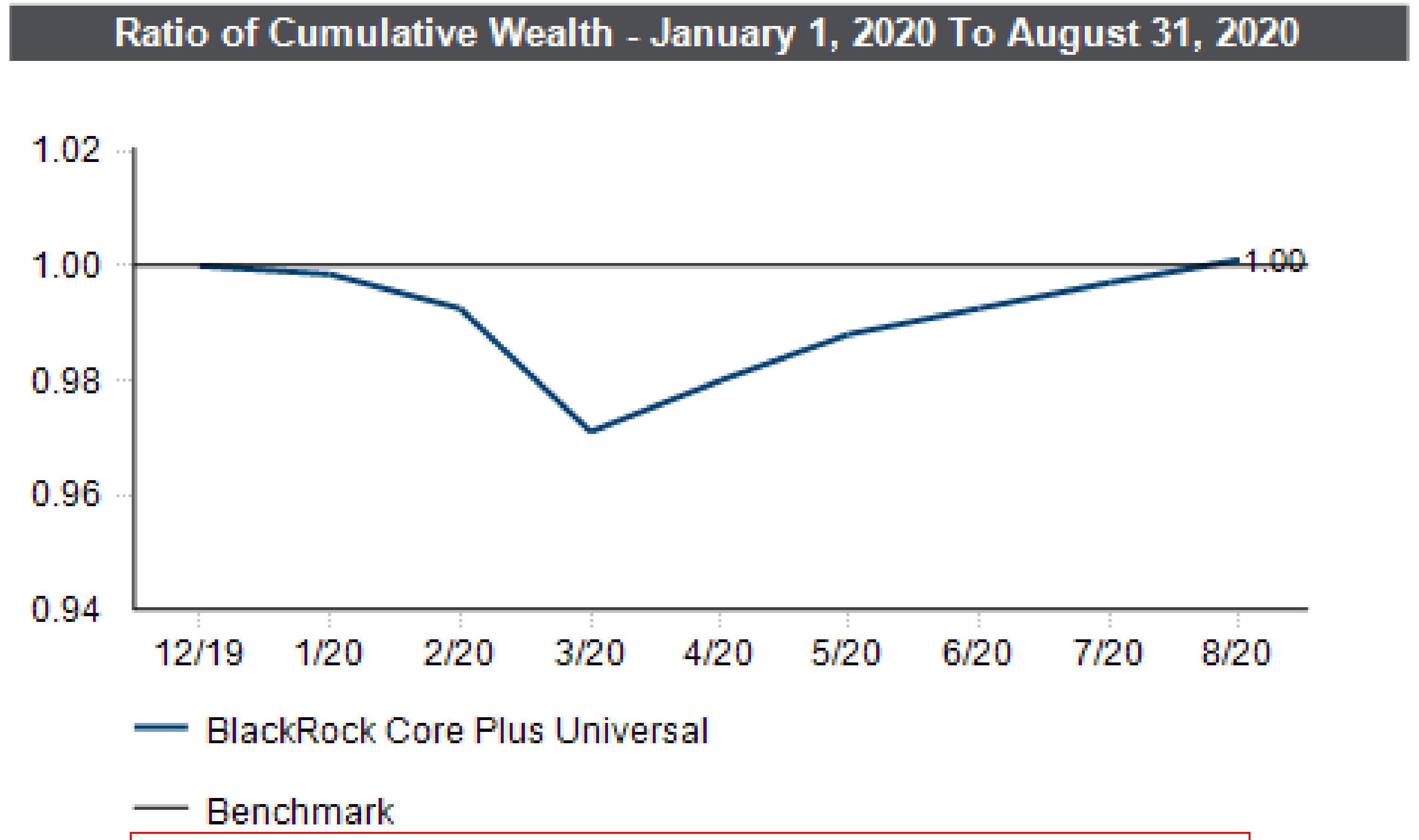
6 Month Drawdown (-7.9%); 22 Month Recovery



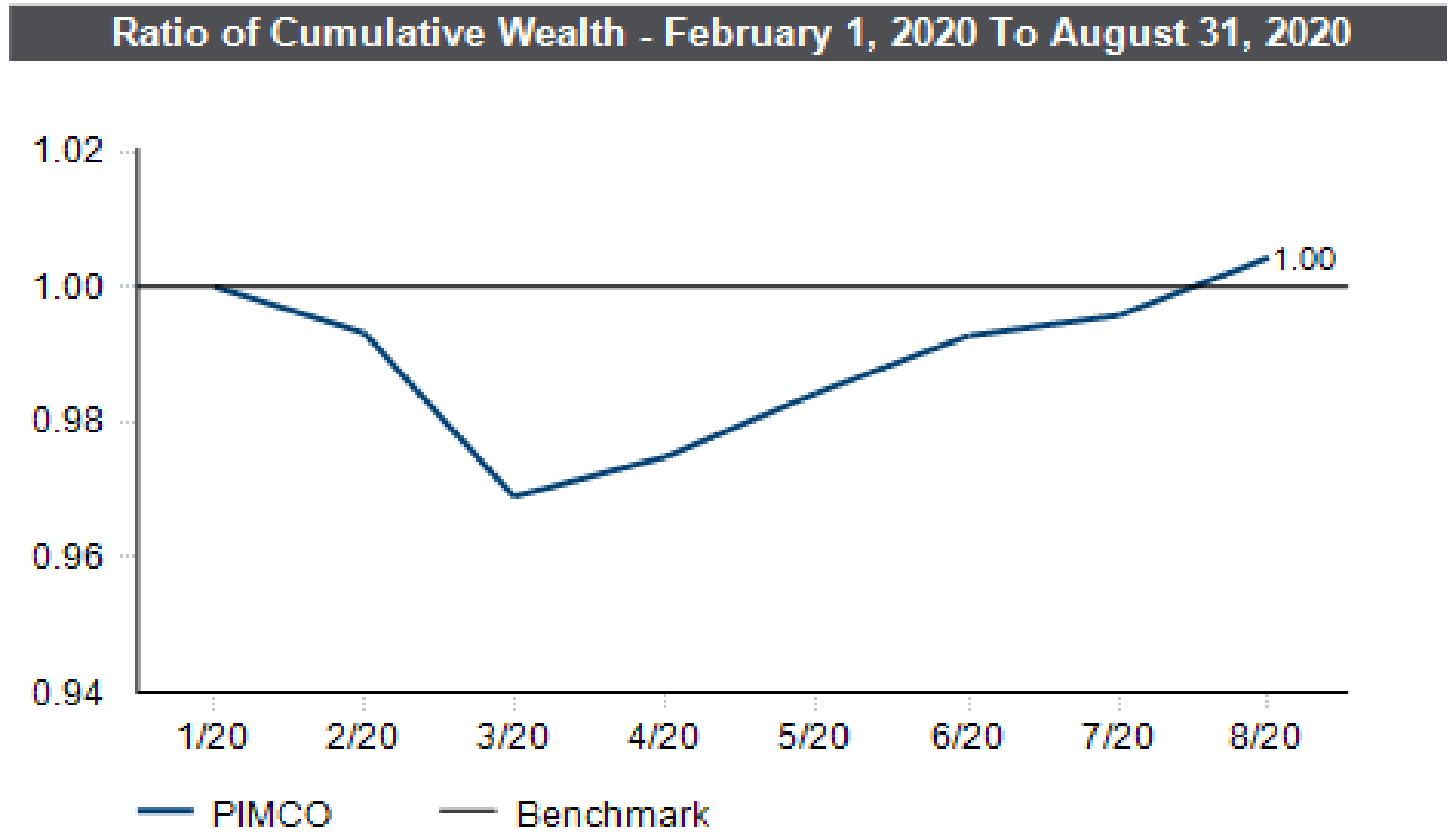
13 Month Drawdown (-6.2%); 7 Month Recovery



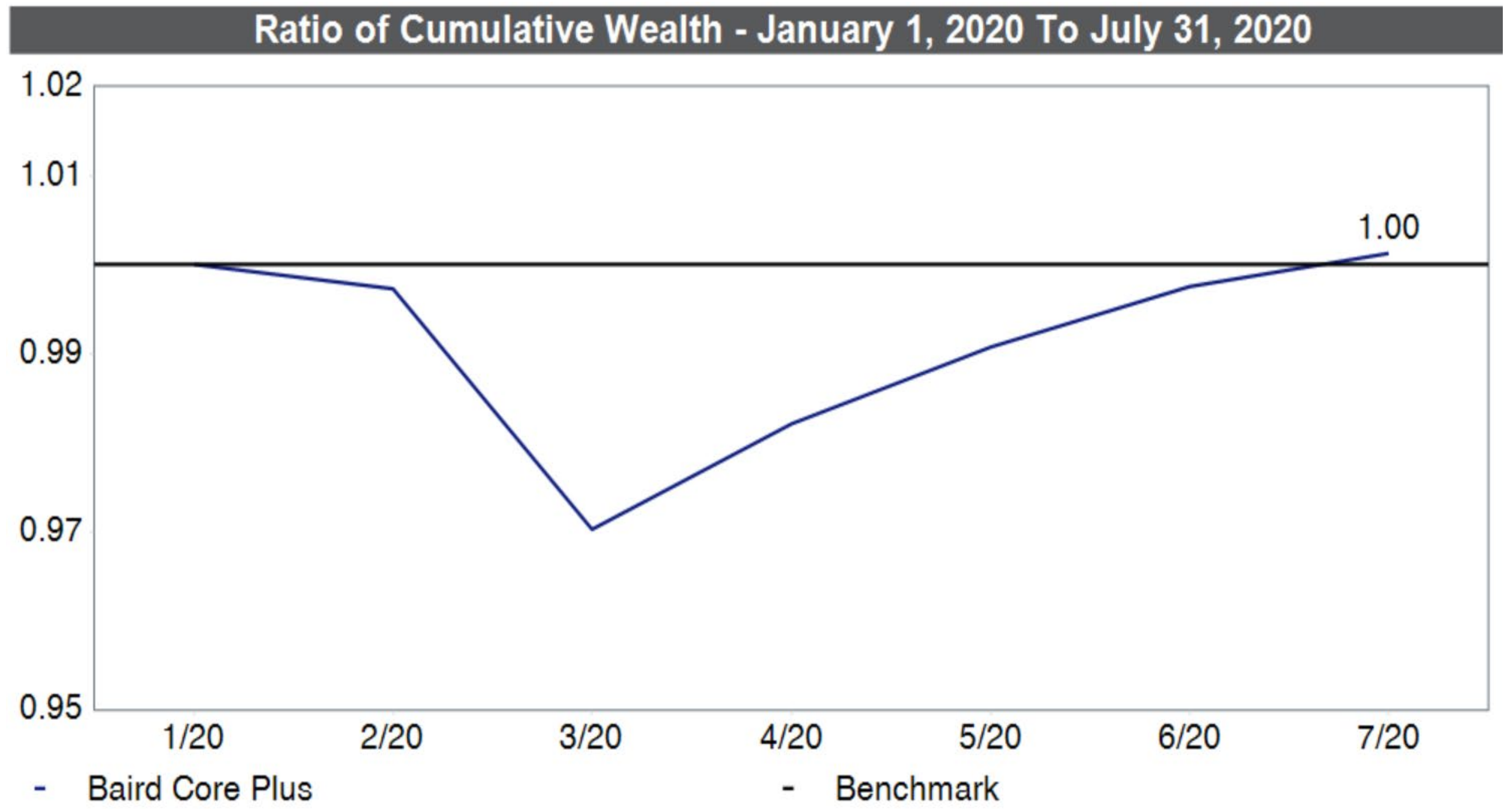
3 Month Drawdown (-4.3%); 7 Month Recovery



3 Month Drawdown (-3.0%); 5 Month Recovery



2 Month Drawdown (-3.2%); 5 Month Recovery



2 Month Drawdown (-3.0%); 4 Month Recovery

Summary

It is Aon and the Nebraska investment staff's view that the benefits of actively managed Bloomberg Agg-centric mandates outweigh the drawbacks

Likely to increase both long-term returns and volatility

Assuming NIC "stays the course" in equity market corrections, benchmark-relative losses associated with actively managed mandates will be recouped

- The DB Plans' favorable liquidity profile should allow NIC to stay the course, even in stressed environments

Aon and the NIC investment staff would only suggest core-plus strategies that are managed in a risk-controlled fashion

Appendix I: Current Allocation + Fees

	Total DB/CBB (NPERS DB, NPERS CBB + OSERS)	IM Fees
BlackRock Agg Bond Index	$1.9 Billion	0.01%
BlackRock Core Plus	$1.9 Billion	0.11%
PIMCO Core Plus	$1.9 Billion	0.18%
Baird	$1.9 Billion	0.14%
Total	$7.5 Billion	0.11%

In the table above we provide a pro-forma allocation for the aggregated DB Plans' risk-reducing fixed income allocation, post the increase to the bond allocation

If the Council were to move to an "all active" approach to risk-reducing fixed income, we would estimate that fees would increase by ≈3 bps, or approximately $2.5 million*

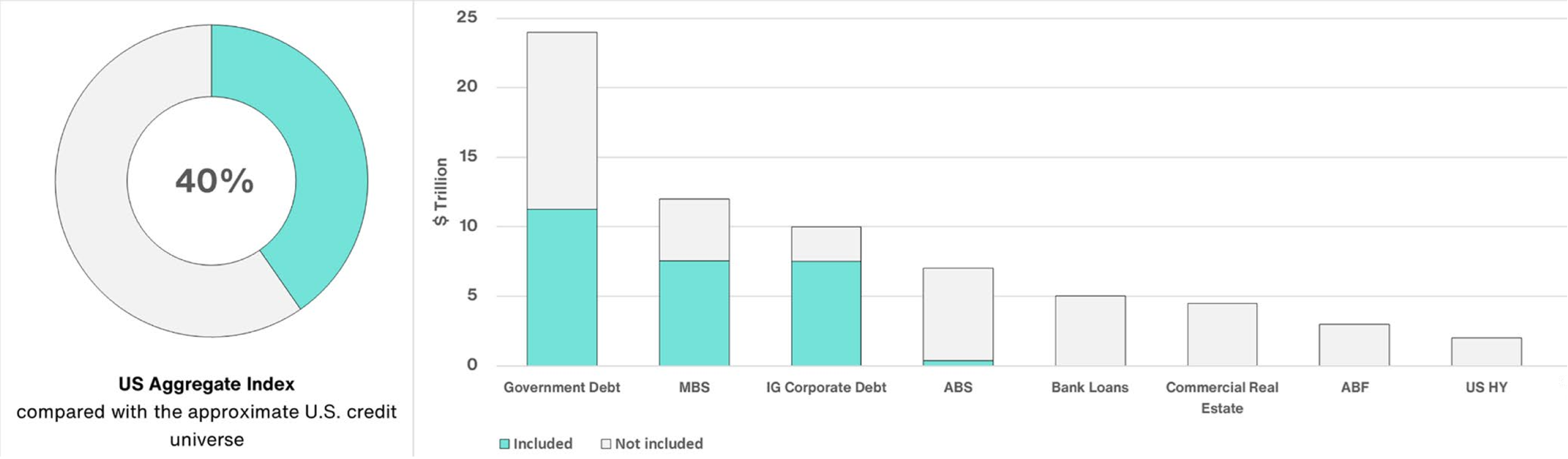
*Here we have taken an average of PIMCO, BlackRock (active) and Baird's fees and applied them to the entire risk-reducing fixed income allocation

Appendix II: Aon Buy Rated Core-Plus Bond Strategies Not Currently Utilized by NIC

1) **Capital Group Core Plus Total Return:** High tracking error, macro-focused, a diversifier to traditional core plus.
2) **PGIM Core Plus:** Credit-centric, including corporates, CLO's and CMBS, and usually less than 10% in Treasuries.
3) **Loomis Sayles*:** Traditional approach to core-plus. Combines top-down with bottom-up. Known for securities research and will tend to be underweight Treasuries.
4) **Reams:** Value-oriented sector rotation. Will take big positions where they see value. No permanent biases.
5) **Federated:** Value-oriented; Can be overweight / underweight any area of the market.

*Same research but different team than their Multi Sector Full Discretion strategy.

Appendix III: Bloomberg U.S. Aggregate Bond Index vs. U.S. Bond Opportunity Set



While many see the Bloomberg U.S. Aggregate Index as the most comprehensive U.S. Fixed Income index, the index leaves out large segments of the U.S. fixed income universe

Some of these segments include non-agency mortgage-backed securities (MBS), asset backed securities (ABS), real estate debt, and investment grade private credit

Note: The credit universe refers to debt instruments including traditional fixed income, but not restricted to government debt, MBS, IG corporate debt and ABS. In this context, we are also including trade credit, bank loans, commercial real estate, US HY and direct lending within the credit universe.

Source: JPM, Apollo, KKR, data as of March 29, 2022 source SIFMA, Bloomberg, The Federal Reserve, US Agencies, US Treasury. Note: CRE data as of June 30, 2021, Source: Nareit, CoStar, Green Street.

The information presented is for illustrative purposes only. The U.S. Credit Universe is estimated by the aforementioned sources as of 3/29/2022 and 6/30/2021 and does not reflect current market conditions as of the date of publication. The presented figures are meant to demonstrate the proportion of the U.S. credit universe that is not covered by the U.S. Aggregate debt based on the estimated size of the total US Fixed Income market.

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